

**KANDIYOHI SOIL AND WATER  
CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

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## INDEPENDENT AUDITOR'S REPORT

Board of Supervisors  
Kandiyohi Soil and Water Conservation District  
Willmar, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of Kandiyohi Soil and Water Conservation District, Willmar, Minnesota, as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Kandiyohi Soil and Water Conservation District as of December 31, 2015, and the respective

changes in financial position, and, the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter - Change in Accounting Principles***

As described in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, for the year ended December 31, 2015. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–7 and the required supplementary schedules for the defined benefit pension plan on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the Kandiyohi Soil and Water Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kandiyohi Soil and Water Conservation District's internal control over financial reporting and compliance.

*Peterson Company Ltd*

PETERSON COMPANY LTD.  
Certified Public Accountants  
Waconia, Minnesota

September 30, 2016

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
DECEMBER 31, 2015**

The Kandiyohi Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements are also included. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's general fund. Since Districts are single-purpose, special-purpose government units, the District combines the government-wide and fund financial statements into a single presentation.

**The Statement of Net Position and the Statement of Activities**

One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position — the difference between assets and liabilities — as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the state and local governmental funding, to assess the overall health of the District.

In the Statement of Net Position and the Statement of Activities, the District presents governmental activities. All of the District's basic services are reported here. Appropriations from the county and state finance most activities.

**Reporting the District's General Fund**

The fund financial statements provide detailed information about the general fund—not the District as a whole. The District presents only a general fund, which is a governmental fund. All of the District's basic services are reported in the general fund, which focuses on how money flows into and out of the fund and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures

cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

## THE DISTRICT AS A WHOLE

The District's combined net position for 2015 is \$49,831. In contrast, last year's net position was \$36,800. The analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1  
Net Position:

	<b>Governmental Activities</b>	
	<b>2015</b>	<b>2014</b>
Current Assets	\$ 169,444	\$ 178,142
Capital Assets, net of depreciation	81,483	65,692
Deferred Outflows of Resources	18,454	5,450
Combined Assets and deferred Outflows of Resources	<u>\$ 269,381</u>	<u>\$ 249,284</u>
Current Liabilities	\$ 58,621	\$ 70,293
Long-Term Liabilities	147,090	142,191
Deferred Inflows of Resources	13,839	-
Combined Liabilities and Deferred Inflows of Resources	<u>\$ 219,550</u>	<u>\$ 212,484</u>
Investments in Capital Assets	\$ 81,483	\$ 65,692
Unrestricted	<u>(31,652)</u>	<u>(28,892)</u>
Total Net Position	<u>\$ 49,831</u>	<u>\$ 36,800</u>

Net position of the District's governmental activities increased by \$13,031. For 2015, a restatement of prior year net position was required because of a change in accounting principles. The change is reflected in the 2014 column. See Note 1 of the Notes to the Financial Statements for an explanation. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from \$(28,892) at December 31, 2014 to \$(31,652) at December 31, 2015.

Unearned revenue funds in the amount of \$57,937 for 2015 are dedicated for cost share projects, water plan funds, coop weed management grants, MAWQCP, Buffer Implementation, Easement Delivery, and wetland services and cannot be used to finance day-to-day operations.

Table 2  
Change in Net Position:

	<b>Governmental Activities</b>	
	<b>2015</b>	<b>2014</b>
<u>Revenues</u>		
Intergovernmental	\$ 307,519	\$ 219,111
Charges for Services	244,670	233,599
Investment Earnings	401	430
Miscellaneous	18,099	3,541
Total Revenues	<u>\$ 570,689</u>	<u>\$ 456,681</u>
<u>Expenditures</u>		
Conservation	<u>\$ 557,658</u>	<u>\$ 605,863</u>
Total Expenditures	<u>\$ 557,658</u>	<u>\$ 605,863</u>
Increase (decrease) in Net Position	<u>\$ 13,031</u>	<u>\$ (149,182)</u>

The District's total revenues increased by \$114,008. The total cost of programs and services decreased by \$48,205. For 2015, a restatement of prior year net position was required because of a change in accounting principles. The change is reflected in the 2014 column (see Note 1).

The increase in fund balance for 2015 was due mainly to the increase in state grants and charges for services.

The District has received some new state grants in 2015 for Minnesota Ag Water Quality Certification Program (MAWQCP) and Buffer Implementation, which increased revenues.

The native grass seed program for 2016 will be similar to 2015 due to the continued interest and promotion of the Continuous Conservation Reserve Program (CCRP) in our county.

The District has a very active Reinvest in Minnesota/Wetlands Reserve Program (RIM/WRP). Since 2008 we have 45 approved RIM/WRP easements. These funds will be received as revenue as projects are completed. The District anticipates receiving approximately \$20,000 for plan development, construction design, and construction implementation. The ongoing activity with this program should continue to generate additional revenue for the District into the future.

The District will continue participation in the MN Walk in Access (WIA) Program in 2016. There will be a grant agreement for this program for approximately \$250 per contract plus incentives in 2016.

Personnel costs will increase in 2016 as the government has approved a cost of living increase and some employees were given a step increase.

**Governmental Activities**

Revenues, including the sale of trees, native prairie grass and filter fabric, along with services for planting, seeding and installing filter fabric increased by \$11,071.

Approximately 25 percent of the District's funding was tax based with \$139,000 being received from the county. Included in our state grants were 29 percent for our cost share program, cooperative weed management, flood relief grants, walk in access funds, Conservation Delivery, Easement Delivery, Buffer Implementation, Minnesota Ag Water Quality Certification Delivery (MAWQCP), Farm Bill Assistance, wetlands services, and well monitoring. Of the remaining revenue, 43 percent was generated from District service programs and 3 percent from interest and miscellaneous revenue.

The cost of all governmental activities this year was \$557,658 compared to \$605,863 last year, a decrease of \$48,205. Taxpayers financed some of these expenses through county, state and federal grants. In addition to the cost share funds that are spent, the landowner also contributes to the cost of these conservation projects. The District also partners with NRCS, FSA, USF & WS, DNR, Kandiyohi County, sportsmen groups and local watershed projects to fund cost share projects.

The largest programs or activities:

- ) Reinvest in Minnesota/Wetlands Reserve Program (RIM/WRP)
- ) Continuous Conservation Reserve Program (CCRP)
- ) Conservation Reserve Program (CRP)
- ) Conservation Reserve Enhancement Program (CREP)
- ) Reinvest in Minnesota (RIM)
- ) State Cost Share
- ) Walk In Access (WIA)
- ) Services programs for trees, native prairie grass and filter fabric

## **THE DISTRICT'S FUNDS**

As the District completed the year, its general fund as presented in the balance sheet reported a combined fund balance of \$110,823, which is above last year's total of \$107,849. This year's total change in fund balance is an increase of \$2,974 in the District's General Fund. This increase in the fund balance was a combination of more revenues from grants and Contribution Agreements.

### **General Fund Budgetary Highlights**

The District reviews the budget during the year. Variances in the budget occurred from an increase in Intergovernmental Revenues, decrease in interest earnings and increases in project expenditures.

The actual charges to appropriations (expenditures) were \$238,515 above the final budgeted amounts. The most significant negative variance of \$83,525 occurred in State Project Expenditures. The most significant positive variance of \$120,479 occurred in State Revenue.

## **CAPITAL ASSETS & LONG-TERM LIABILITIES**

### **Capital Assets**

At the end of 2015, the District had \$81,483 invested in a broad range of capital assets, including a storage building, two vehicles, field equipment, drills, trailers, computers and various office supplies. This amount represents a net increase (including additions and deletions) of \$15,791



from last year. The District uses a threshold of \$1,000 for capitalizing assets purchased. Those physical assets under \$1,000 are expenses directly and not capitalized.

This year our capital assets changed due to the purchasing of a trailer and new drill for seeding. The District does have some major purchases scheduled for 2016; we also plan to continue necessary maintenance to our storage building, vehicles and all other equipment.

### **Long-Term Liabilities**

At the end of 2015, the District had \$12,345 in accrued compensated absences. This compares to \$10,661 in 2014.

GASB 68 became effective for all year ends starting June 30, 2015 or later. The GASB 68 requires the recording of any unfunded pension liabilities. The Net Pension Liability is considered a long-term liability and represents the District's share of MN PERA that is underfunded, based on current actuarial tables. To record the liability this year, the beginning fund balance has to be adjusted by the Net Pension Liability that existed on June 30, 2014. The District has recognized a Net Pension Liability of \$134,745 in 2015.

### **Economic Factors and Next Year's Budgets and Rates**

The District's elected officials considered many factors when setting the 2016 budget. The County's level of funding will remain at the same level in 2016 as it has been the last year. State funding for General Services and the Cost Share Programs has remained the same as last year. Employee's wages will increase due to step increases and cost of living raises in 2016.

Additional State Grants will be received in 2016 for SWCD Capacity Funding, Buffer Implementation, Cooperative Weed Management, and Kandi Creek.

The service programs for 2016, especially the native grass seed program, should remain the same in 2016. There continues to remain a high level of activity for the native prairie grass seed program, which has helped make up for some of the cuts in state funding. The tree and fabric programs will continue at a lower level of activity in 2016. There should also be more RIM funds to the District as construction is completed on some RIM/WRP easements.

Competitive grants are available to apply for in order to secure funding for a variety of programs. The District will continue to apply for these competitive grants. It is important to continue searching and applying for grants to help fund cost share conservation projects in the county.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Kandiyohi Soil and Water Conservation District at 1005 High Ave NE, Willmar, MN 56201. The phone number is 320-235-3906 extension 3.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
WILLMAR, MINNESOTA  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2015**

	General Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash and Investments	\$ 164,340	\$ -	\$ 164,340
Accounts Receivable	5,104	-	5,104
Capital Assets:			
Equipment (net of accumulated depreciation)	-	81,483	81,483
Total Assets	<u>169,444</u>	<u>81,483</u>	<u>250,927</u>
<b>Deferred Outflows of Resources</b>			
Defined Benefit Pension Plan	-	18,454	18,454
<b>Combined Assets and Deferred Outflows of Resources</b>	<u>\$ 169,444</u>	<u>\$ 99,937</u>	<u>\$ 269,381</u>
<b>Liabilities</b>			
Current Liabilities:			
Unearned Revenue	\$ 57,937	\$ -	\$ 57,937
Accrued Payroll Benefits	500	-	500
Deposit on Sales	184	-	184
Long-term Liabilities:			
Net Pension Liability	-	134,745	134,745
Compensated Absences	-	12,345	12,345
Total Liabilities	<u>58,621</u>	<u>147,090</u>	<u>205,711</u>
<b>Deferred Inflows of Resources</b>			
Defined Benefit Pension Plan	-	13,839	13,839
<b>Combined Liabilities and Deferred Inflows of Resources</b>	<u>\$ 58,621</u>	<u>\$ 160,929</u>	<u>\$ 219,550</u>
<b>Fund Balance/Net Position</b>			
Fund Balance			
Assigned - Compensated Absences	12,345	(12,345)	-
Unassigned	93,374	(93,374)	-
Total Fund Balance	<u>\$ 110,823</u>	<u>\$ (110,823)</u>	<u>\$ -</u>
Net Position			
Investments in Capital Assets		\$ 81,483	\$ 81,483
Unrestricted		(31,652)	(31,652)
Total Net Position		<u>\$ 49,831</u>	<u>\$ 49,831</u>

Notes are an integral part of the basic financial statements.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
WILLMAR, MINNESOTA  
STATEMENT OF ACTIVITIES AND  
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$ 307,519	\$ -	\$ 307,519
Charges for Services	244,670	-	244,670
Investment Earnings	401	-	401
Miscellaneous	18,099	-	18,099
Total Revenues	<u>\$ 570,689</u>	<u>\$ -</u>	<u>\$ 570,689</u>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$ 546,557	\$ 11,101	\$ 557,658
Capital Outlay	21,158	(21,158)	-
Total Expenditures/Expenses	<u>\$ 567,715</u>	<u>\$ (10,057)</u>	<u>\$ 557,658</u>
Excess of Revenues Over (Under) Expenditures/Expenses	\$ 2,974	\$ 10,057	\$ 13,031
Fund Balance/Net Position January 1, as restated	<u>\$ 107,849</u>	<u>\$ (71,049)</u>	<u>\$ 36,800</u>
Fund Balance/Net Position December 31	<u><u>\$ 110,823</u></u>	<u><u>\$ (60,992)</u></u>	<u><u>\$ 49,831</u></u>

Notes are an integral part of the basic financial statements.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
WILLMAR, MINNESOTA  
BUDGETARY COMPARISON STATEMENT  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2015**

	Original/ Final Budget	Actual	Variance With Final Budget Positive (Neg)
<b>Revenues</b>			
Intergovernmental			
County	\$ 140,000	\$ 142,000	\$ 2,000
Federal	5,200	1,440	(3,760)
State	43,600	164,079	120,479
Total Intergovernmental	<u>\$ 188,800</u>	<u>\$ 307,519</u>	<u>\$ 118,719</u>
Charges for Services	<u>\$ 135,000</u>	<u>\$ 244,670</u>	<u>\$ 109,670</u>
Miscellaneous			
Interest Earnings	\$ 1,600	\$ 401	\$ (1,199)
Other	3,800	18,099	14,299
Total Miscellaneous	<u>\$ 5,400</u>	<u>\$ 18,500</u>	<u>\$ 13,100</u>
Total Revenues	<u>\$ 329,200</u>	<u>\$ 570,689</u>	<u>\$ 241,489</u>
<b>Expenditures</b>			
District Operations			
Personnel Services	\$ 197,917	\$ 215,194	\$ (17,277)
Other Services and Charges	22,700	61,192	(38,492)
Supplies	1,000	1,538	(538)
Capital Outlay	1,000	21,158	(20,158)
Total District Operations	<u>\$ 222,617</u>	<u>\$ 299,082</u>	<u>\$ (76,465)</u>
Project Expenditures			
District	\$ 96,183	\$ 174,708	\$ (78,525)
State	10,400	93,925	(83,525)
Total Project Expenditures	<u>\$ 106,583</u>	<u>\$ 268,633</u>	<u>\$ (162,050)</u>
Total Expenditures	<u>\$ 329,200</u>	<u>\$ 567,715</u>	<u>\$ (238,515)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ 2,974</u>	<u>\$ 2,974</u>
Fund Balance - January 1	\$ 107,849	\$ 107,849	\$ -
Fund Balance - December 31	<u>\$ 107,849</u>	<u>\$ 110,823</u>	<u>\$ 2,974</u>

Notes are an integral part of the basic financial statements.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**Note 1 - Summary of Significant Accounting Policies**

The financial reporting policies of the Kandiyohi Soil and Water Conservation District conform to generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

Changes in Accounting Principles

During the year ended December 31, 2015, the District adopted new accounting guidance by implementing the provisions of GASB Statements 68 and 71. GASB statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pensions plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement 68 and 71 require the District to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the District's net pension liability and related deferred outflows of resources.

	Governmental Activities
Net Position, January 1, 2015, as previously reported	\$ 162,880
Change in accounting principles	(126,080)
Net Position, January 1, 2015, as restated	\$ 36,800

Financial Reporting Entity

The Kandiyohi Soil and Water Conservation District is organized under the provisions of Minnesota Statutes Chapter 103C. The District is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to four-year terms by the voters of the County.

The purpose of the District is to assist land occupiers in applying practices for the conservation of soil and water resources. These practices are intended to control wind and water erosion, pollution of lakes and streams, and damage to wetlands and wildlife habitats.

The District provides technical and financial assistance to individuals, groups, districts, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution and improper land use.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Each fiscal year the District develops a work plan which is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objectives.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

Government-Wide Financial Statements

The government-wide financial statements (i.e. The Statement of Net Position and The Statement of Activities) report information on all of the nonfiduciary activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

The government reports the General Fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period.

Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures are recorded when a liability is incurred under accrual accounting.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred.

Investment earnings are recognized when earned. Other revenues are recognized when they are received in cash because they usually are not measurable until then.

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Budget Information

The District adopts an estimated revenues and expenditures budget for the general fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require Board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect: the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

Assets

Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis and short-term money market investments, which are stated at amortized cost.

Receivables are collectible within one year.

Capital assets are reported on a net (depreciated) basis. General capital assets are valued at historical or estimated historical cost.

Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

Long-Term Liabilities

Compensated Absences and Net Pension Liability are accounted for as an adjustment to net position.

Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investments in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the District has only one item that qualifies for reporting in this category, deferred amounts related to their pension obligations. The length of the expense recognition period for deferred amounts is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category, amounts related to their pension obligations. These deferred amounts represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and funds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

Classifications of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation.

Committed – the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.



**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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Assigned – amounts in the assigned fund balance classification the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or the Board Administrator who has been delegated that authority by Board resolution.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other fund balance classifications.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Explanation of Adjustments Column in Statements

Capital Assets: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made if the District has capital assets. This adjustment equals the net book balance of capitalized assets as of the report date and reconciles to the amount reported in the Capital Assets Note.

Long-Term Liabilities: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absences and Net Pension Liability the District has as of the report date. See note on Long-Term Liabilities.

Depreciation, Net Pension Expense and Change in Compensated Absences for the year: In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the net pension expense and the change in Compensated Absences between the reporting year and the previous year.

Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 14 hours per month. Sick leave accrual is 8 hours per month. The limit on the accumulation of vacation leave is 180 hours and the limit on the accumulation of sick leave is 920 hours. Upon termination of employment from the District, employees are only paid accrued vacation leave.

Risk Management

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The District retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The District pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**Note 2 - Detailed Notes**

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

	<u>Beginning</u>	<u>Addition</u>	<u>Deletion</u>	<u>Ending</u>
Equipment	\$216,613	\$21,158	\$0	\$237,771
Less: Accumulated Depreciation	<u>150,921</u>	<u>5,367</u>	<u>0</u>	<u>156,288</u>
Net Capital Assets	<u>\$ 65,692</u>			<u>\$ 81,483</u>

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. For the purpose of computing depreciation, the useful life for Machinery and Equipment is 5 to 10 years. Current year depreciation is \$5,367.

The District uses the threshold of \$1,000 for capitalizing assets purchased.

Unearned Revenue

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2015, consists of the following: BWSR Cost Share Programs \$7,725; County Water Plan \$3,000; BWSR Easement Delivery \$6,920; Wetland Services \$4,142; Buffer Implementation \$30,000; Water Quality Certification \$6,000; Coop Weed Management \$150; Total \$57,937.

Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended December 31, 2015 are:

Balance January 1, 2015	\$10,661
Net Change in Compensated Absences	<u>1,684</u>
Balance December 31, 2015	<u>\$12,345</u>

Deposits

Minnesota Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. When not covered by insurance or surety bonds, the market value of collateral pledged shall be at least ten percent more than the amount on deposit (plus accrued interest) at the close of the financial institution's banking day.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2015, the District's deposits were not exposed to custodial credit risk.

**Note 3 - Defined Benefit Pension Plans**

Plan Description

The District participates in the following defined benefit pension plan administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

All full-time and certain part-time employees of the District are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

Contributions

Minnesota Statute Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2015. The District was required to contribute 7.50 percent for Coordinated Plan members in calendar year 2015. The District's contributions to the GERS for the year ended December 31, 2015, were \$11,383. The District's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs

At December 31, 2015, the District reported a liability of \$134,745 for its proportionate share of the GERS's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was .0026 percent.

For the year ended December 31, 2015, the District recognized pension expense of \$15,433 for its proportionate share of GERS's pension expense.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

At December 31, 2015, the District reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 6,793
Difference between projected and actual investment earnings	12,756	-
Change in Proportion	-	7,046
Contributions paid to PERA Subsequent to the measurement date	5,698	-
Total	<u>\$ 18,454</u>	<u>\$ 13,839</u>

The total of \$5,698 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year end December 31:</u>	<u>Pension Expense Amount</u>
2016	\$ (1,424)
2017	(1,424)
2018	(1,424)
2019	3,189

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75 percent per year
Active Member Payroll Growth	3.50 percent per year
Investment Rate of Return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilityants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1.0 percent effective every January 1<sup>st</sup> through 2034 and 2.5 percent thereafter.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERS was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

The following changes in actuarial assumptions occurred in 2015: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0 percent to 2.5 percent on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0 percent to 2.5 percent on January 1, 2035.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15	6.00
Bonds	18	1.45
Alternative Assets	20	6.40
Cash	2	0.50

Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's Proportionate share of the GERF net pension Liability:	\$ 211,868	\$ 134,745	\$ 71,054

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**Note 4 - Operating Leases**

The District leases office space on a yearly basis. Under the current agreement total costs for 2015 were \$9,331.

**Note 5 - Stewardship, Compliance and Accountability**

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$567,715; Budget \$329,200; Excess \$238,515.

**Note 6 - Reconciliation of Fund Balance to Net Position**

Governmental Fund Balance, January 1	\$ 107,849
Plus: Excess of Revenue Over Expenditures	<u>2,974</u>
Governmental Fund Balance, December 31	<u>110,823</u>
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	\$ 81,483
Plus: Deferred Outflows of Resources	18,454
Less: Long-Term Liabilities	(147,090)
Less: Deferred Inflows of Resources	<u>(13,839)</u>
Net Position	<u>\$ 49,831</u>

**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**Note 7 - Reconciliation of Change in Fund Balance to Change in Net Position**

Change in Fund Balance	\$	2,974
Capital Outlay		21,158
Pension Expense, net		(4,050)
The cost of capital assets are allocated over the capital assets' useful lives at the government-wide level.		(5,367)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.		<u>(1,684)</u>
Change in Net Position	<u>\$</u>	<u>13,031</u>



**KANDIYOHI SOIL AND WATER CONSERVATION DISTRICT  
WILLMAR, MINNESOTA**

**SCHEDULE OF CONTRIBUTIONS  
GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 11,383	\$ 11,383	\$ -	\$ 151,773	7.50%

\* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each year-end were determined December 31.

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

Fiscal Year Ending	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0026%	\$ 134,745	\$ 148,283	90.87%	78.19%

\* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined June 30.

## MINNESOTA LEGAL COMPLIANCE REPORT

Board of Supervisors  
Kandiyohi Soil and Water Conservation District  
Willmar, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* (issued by the Comptroller General of the United States), the financial statements of Kandiyohi Soil and Water Conservation District of Willmar, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the District is not allowed to issue debt.

In connection with our audit, nothing came to our attention that caused us to believe that the Kandiyohi Soil and Water Conservation District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining the knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Kandiyohi Soil and Water Conservation District's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*Peterson Company Ltd*

PETERSON COMPANY LTD.  
Certified Public Accountants  
Waconia, Minnesota

September 30, 2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Supervisors  
Kandiyohi Soil and Water Conservation District  
Willmar, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Kandiyohi Soil and Water Conservation District, Willmar, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Kandiyohi Soil and Water Conservation District's basic financial statements, and have issued our report thereon dated September 30, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Kandiyohi Soil and Water Conservation District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kandiyohi Soil and Water Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of Kandiyohi Soil and Water Conservation District's internal control.

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kandiyohi Soil and Water Conservation District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial

statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Peterson Company Ltd*

PETERSON COMPANY LTD.  
Certified Public Accountants  
Waconia, Minnesota

September 30, 2016